

**REPORT OF THE AUDIT OF THE  
UNION COUNTY  
SHERIFF'S SETTLEMENT - 2005 TAXES**

**April 28, 2006**



**CRIT LUALLEN  
AUDITOR OF PUBLIC ACCOUNTS  
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**EXECUTIVE SUMMARY**  
**AUDIT EXAMINATION OF THE**  
**UNION COUNTY**  
**SHERIFF'S SETTLEMENT - 2005 TAXES**

**April 28, 2006**

The Auditor of Public Accounts has completed the audit of the Sheriff's Settlement - 2005 Taxes as of April 28, 2006 for the Union County Sheriff. We have issued an unqualified opinion on the financial statement taken as a whole. Based upon the audit work performed, the financial statement is presented fairly in all material respects.

**Financial Condition:**

The Sheriff collected \$4,944,429 for the districts for 2005 taxes, retaining commissions of \$203,766 to operate the Sheriff's office. The Sheriff distributed \$4,729,549 to the districts for 2005 taxes.

**Report Comment:**

- The Sheriff's Office Lacks Adequate Segregation Of Duties

**Deposits:**

The Sheriff's deposits were insured and collateralized by bank securities.



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**CRIT LUALLEN**  
**AUDITOR OF PUBLIC ACCOUNTS**

To the People of Kentucky  
Honorable Ernie Fletcher, Governor  
John R. Farris, Secretary  
Finance and Administration Cabinet  
Honorable Jody L. Jenkins, Union County Judge/Executive  
Honorable Mike Thompson, Union County Sheriff  
Members of the Union County Fiscal Court

Independent Auditor's Report

We have audited the Union County Sheriff's Settlement - 2005 Taxes as of April 28, 2006. This tax settlement is the responsibility of the Union County Sheriff. Our responsibility is to express an opinion on this financial statement based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America, the standards applicable to financial audits contained in Government Auditing Standards issued by the Comptroller General of the United States, and the Audit Guide for Sheriff's Tax Settlements issued by the Auditor of Public Accounts, Commonwealth of Kentucky. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statement is free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statement. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

As described in Note 1, the Sheriff's office prepares the financial statement on a prescribed basis of accounting that demonstrates compliance with the modified cash basis, which is a comprehensive basis of accounting other than accounting principles generally accepted in the United States of America.

In our opinion, the accompanying financial statement referred to above presents fairly, in all material respects, the Union County Sheriff's taxes charged, credited, and paid as of April 28, 2006, in conformity with the modified cash basis of accounting.

In accordance with Government Auditing Standards, we have also issued our report dated March 28, 2007 on our consideration of the Sheriff's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with Government Auditing Standards and should be considered in assessing the results of our audit.



To the People of Kentucky  
Honorable Ernie Fletcher, Governor  
John R. Farris, Secretary  
Finance and Administration Cabinet  
Honorable Jody L. Jenkins, Union County Judge/Executive  
Honorable Mike Thompson, Union County Sheriff  
Members of the Union County Fiscal Court

Based on the results of our audit, we present the accompanying comment and recommendation, included herein, which discusses the following report comment:

- The Sheriff's Office Lacks Adequate Segregation Of Duties

Respectfully submitted,

A handwritten signature in black ink, appearing to read "Crit Luallen", with a long horizontal flourish extending to the right.

Crit Luallen  
Auditor of Public Accounts

March 28, 2007



UNION COUNTY  
MIKE THOMPSON, SHERIFF  
SHERIFF'S SETTLEMENT - 2005 TAXES

April 28, 2006

<u>Charges</u>	<u>County Taxes</u>	<u>Special Taxing Districts</u>	<u>School Taxes</u>	<u>State Taxes</u>
Real Estate	\$ 401,003	\$ 421,628	\$ 1,883,142	\$ 515,210
Tangible Personal Property	143,294	138,798	672,917	347,448
Intangible Personal Property				69,781
Fire Protection	237			
Increases Through Exonerations	49	44	233	64
Franchise Taxes	48,829	46,356	227,491	
Additional Billings	2	1	7	7
Oil and Gas Property Taxes	19,767	17,442	92,827	25,387
Bank Franchises	50,219			
Penalties	2,319	2,101	10,886	3,019
Gross Chargeable to Sheriff	<u>665,719</u>	<u>626,370</u>	<u>2,887,503</u>	<u>960,916</u>
<u>Credits</u>				
Exonerations	1,588	1,410	7,457	2,378
Discounts	9,982	9,313	42,141	14,793
Delinquents:				
Real Estate	8,325	7,508	39,087	10,690
Oil	58	52	274	75
Tangible Personal Property	2,929	2,837	13,755	12,952
Intangible Personal Property				14
Franchise Taxes:				
Delinquent	241	233	1,131	
Uncollected	985	942	4,626	
Tax Bills Not Printed	33	47	153	70
Total Credits	<u>24,141</u>	<u>22,342</u>	<u>108,624</u>	<u>40,972</u>
Taxes Collected	641,578	604,028	2,778,879	919,944
Less: Commissions *	<u>27,555</u>	<u>25,671</u>	<u>111,155</u>	<u>39,385</u>
Taxes Due	614,023	578,357	2,667,724	880,559
Taxes Paid	612,497	577,002	2,662,909	877,141
Refunds (Current and Prior Year)	<u>1,526</u>	<u>1,355</u>	<u>4,815</u>	<u>3,418</u>
Due Districts				
as of Completion of Fieldwork	<u>\$ 0</u>	<u>\$ 0</u>	<u>\$ 0</u>	<u>\$ 0</u>

\* Commissions:

10% on \$ 10,000  
4.25% on \$ 2,155,550  
4% on \$ 2,778,879

UNION COUNTY  
NOTES TO FINANCIAL STATEMENT

April 28, 2006

Note 1. Summary of Significant Accounting Policies

A. Fund Accounting

The Sheriff's office tax collection duties are limited to acting as an agent for assessed property owners and taxing districts. A fund is used to account for the collection and distribution of taxes. A fund is a separate accounting entity with a self-balancing set of accounts. Fund accounting is designed to demonstrate legal compliance and to aid financial management by segregating transactions related to certain government functions or activities.

B. Basis of Accounting

The financial statement has been prepared on a modified cash basis of accounting. Basis of accounting refers to when charges, credits, and taxes paid are reported in the settlement statement. It relates to the timing of measurements regardless of the measurement focus.

Charges are sources of revenue, which are recognized in the tax period in which they become available and measurable. Credits are reductions of revenue, which are recognized when there is proper authorization. Taxes paid are uses of revenue, which are recognized when distributions are made to the taxing districts and others.

C. Cash and Investments

At the direction of the fiscal court, KRS 66.480 authorizes the Sheriff's office to invest in the following, including but not limited to, obligations of the United States and of its agencies and instrumentalities, obligations and contracts for future delivery or purchase of obligations backed by the full faith and credit of the United States, obligations of any corporation of the United States government, bonds or certificates of indebtedness of this state, and certificates of deposit issued by or other interest-bearing accounts of any bank or savings and loan institution which are insured by the Federal Deposit Insurance Corporation (FDIC) or which are collateralized, to the extent uninsured, by any obligation permitted by KRS 41.240(4).

Note 2. Deposits

The Sheriff maintained deposits of public funds with depository institutions insured by the Federal Deposit Insurance Corporation (FDIC) as required by KRS 66.480(1)(d). According to KRS 41.240(4), the depository institution should pledge or provide sufficient collateral which, together with FDIC insurance, equals or exceeds the amount of public funds on deposit at all times. In order to be valid against the FDIC in the event of failure or insolvency of the depository institution, this pledge or provision of collateral should be evidenced by an agreement between the Sheriff and the depository institution, signed by both parties, that is (a) in writing, (b) approved by the board of directors of the depository institution or its loan committee, which approval must be reflected in the minutes of the board or committee, and (c) an official record of the depository institution.

UNION COUNTY  
NOTES TO FINANCIAL STATEMENT  
April 28, 2006  
(Continued)

Note 2. Deposits (Continued)

Custodial Credit Risk - Deposits

Custodial credit risk is the risk that in the event of a depository institution failure, the Sheriff's deposits may not be returned. The Sheriff does not have a deposit policy for custodial credit risk but rather follows the requirements of KRS 41.240(4). As of April 28, 2006, all deposits were covered by FDIC insurance or a properly executed collateral security agreement.

Note 3. Tax Collection Period

A. Property Taxes

The real and personal property tax assessments were levied as of January 1, 2005. Property taxes were billed to finance governmental services for the year ended June 30, 2006. Liens are effective when the tax bills become delinquent. The collection period for these assessments was September 20, 2005 through April 28, 2006.

B. Oil Taxes

The real and personal property tax assessments were levied as of January 1, 2005. Property taxes were billed to finance governmental services for the year ended June 30, 2006. Liens are effective when the tax bills become delinquent. The collection period for these assessments was November 14, 2005 through April 28, 2006.

Note 4. Interest Income

The Union County Sheriff earned \$805 as interest income on 2005 taxes. The Sheriff distributed the appropriate amount to the school district as required by statute, and the remainder was used to operate the Sheriff's office.

Note 5. Sheriff's 10% Add-On Fee

The Union County Sheriff collected \$14,231 of 10% add-on fees allowed by KRS 134.430(3). This amount was used to operate the Sheriff's office.

Note 6. Advertising Costs And Fees

The Union County Sheriff collected \$840 of advertising costs and \$1,815 of advertising fees allowed by KRS 424.330(1) and KRS 134.440(2). The Sheriff distributed the advertising costs to the county as required by statute, and the advertising fees were used to operate the Sheriff's office.

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COMMENT AND RECOMMENDATION



UNION COUNTY  
MIKE THOMPSON, SHERIFF  
COMMENT AND RECOMMENDATION

As of April 28, 2006

INTERNAL CONTROL - REPORTABLE CONDITION AND MATERIAL WEAKNESS:

The Sheriff's Office Lacks Adequate Segregation Of Duties

The Sheriff's office has a lack of segregation of duties, which we consider to be a reportable condition and a material weakness. Due to the entity's diversity of official operations, small size and budget restrictions the official has limited options for establishing an adequate segregation of duties. We recommend the Sheriff implement compensating controls to mitigate the internal control weakness.

- The Sheriff should periodically compare a daily bank deposit to the daily tax checkout sheet and then compare the daily checkout sheet to the receipts ledger. Any differences should be reconciled. He could document this by initialing the bank deposit, daily checkout sheet, and receipts ledger.
- The occasional surprise cash count should be performed.
- The Sheriff should periodically compare the bank reconciliation to the balance in the checkbook. Any differences should be reconciled. The Sheriff could document this by initialing the bank reconciliation and the balance in the checkbook.
- The Sheriff should either mail or deliver tax distribution checks and monthly tax reports to the taxing districts.
- Compensating controls should be documented by the Sheriff with his signature or initials.

*Sheriff Mike Thompson's Response: None.*

PRIOR YEAR:

The Sheriff's Office Lacks Adequate Segregation Of Duties - Repeated

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REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING AND ON  
COMPLIANCE AND OTHER MATTERS BASED ON AN AUDIT OF THE FINANCIAL  
STATEMENT PERFORMED IN ACCORDANCE WITH GOVERNMENT AUDITING STANDARDS





**CRIT LUALLEN**  
**AUDITOR OF PUBLIC ACCOUNTS**

The Honorable Jody L. Jenkins, Union County Judge/Executive  
Honorable Mike Thompson, Union County Sheriff  
Members of the Union County Fiscal Court

**Report On Internal Control Over Financial Reporting And On  
Compliance And Other Matters Based On An Audit Of The Financial  
Statement Performed In Accordance With Government Auditing Standards**

We have audited the Union County Sheriff's Settlement - 2005 Taxes as of April 28, 2006, and have issued our report thereon dated March 28, 2007. The Sheriff prepares his financial statement in accordance with a basis of accounting other than generally accepted accounting principles. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in Government Auditing Standards issued by the Comptroller General of the United States.

**Internal Control Over Financial Reporting**

In planning and performing our audit, we considered the Union County Sheriff's internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinion on the financial statement and not to provide an opinion on the internal control over financial reporting. However, we noted a certain matter involving the internal control over financial reporting and its operation that we consider to be a reportable condition. Reportable conditions involve matters coming to our attention relating to significant deficiencies in the design or operation of the internal control over financial reporting that, in our judgment, could adversely affect the entity's ability to record, process, summarize, and report financial data consistent with the assertions of management in the financial statement. The reportable condition is described in the accompanying comment and recommendation.

- The Sheriff's Office Lacks Adequate Segregation Of Duties

A material weakness is a reportable condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements caused by error or fraud in amounts that would be material in relation to the financial statement being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. Our consideration of the internal control over financial reporting would not necessarily disclose all matters in the internal control that might be reportable conditions and, accordingly, would not necessarily disclose all reportable conditions that are also considered to be material weaknesses. However, we consider the reportable condition described above to be a material weakness.



Report On Internal Control Over Financial Reporting And On  
Compliance And Other Matters Based On An Audit Of The Financial  
Statement Performed In Accordance With Government Auditing Standards  
(Continued)

Compliance And Other Matters

As part of obtaining reasonable assurance about whether the Union County Sheriff's Settlement - 2005 Taxes as of April 28, 2006 is free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under Government Auditing Standards.

This report is intended solely for the information and use of management and the Kentucky Governor's Office for Local Development and is not intended to be and should not be used by anyone other than these specified parties.

Respectfully submitted,

A handwritten signature in black ink, appearing to read "Crit Luallen", written in a cursive style.

Crit Luallen  
Auditor of Public Accounts

March 28, 2007

